

**Testimony of Eugene Pochapsky, PhD  
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Freeport, Pennsylvania**

**Before the United States House of Representatives  
Committee on Small Business**

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***“Heroes of Small Business”***

Madam Chair, Ranking Member Graves, Members of the Committee, thank you for the opportunity to be included as part of this distinguished group of small businesses to testify this morning. My name is Eugene Pochapsky, Vice President and co-founder of OmniTech Partners located in Freeport, Pennsylvania, about an hour northeast of Pittsburgh. Our mission at OmniTech is to provide state-of-the-art night vision technologies to the U.S. Government, state and local governments, and our allies across the world. On behalf of our seventy employees who work to give a competitive edge to those individuals sworn to defend our country and our citizens, we are honored for your invitation to be here today and thank you for this recognition.

**About OmniTech Partners, Inc.**

The OmniTech Partners group is comprised of three business units; Optical Systems Technology, Inc. (OSTI) which manufactures a family of in-line, clip-on night sights, night vision surveillance systems and stabilized gimbaled platforms all for military and law enforcement applications; Keystone Applied Technologies, Inc. (KATI) which designs, develops and prototypes new electro-optical surveillance systems utilizing multi-spectral optical designs and configurations; and FrigiLite, Inc., the most recently created business unit that designs cost-effective, environmentally safe, remote source lighting solutions for refrigerated merchandise lighting displays.

When our corporate president, Paul Maxin, and I decided to go into business in 1995 we shared a vision of what it required to fulfill our American dream of being successful business owners. Having both worked as engineers for small firms as well as large corporations including companies that did work for the government, we knew that the opportunities could be great but also that the challenges could be many in this high-tech and specialized market. How to capitalize our business? Could we compete with the large corporations as well as global competition? Could we find qualified workers? Keep in mind that much of the major industry in our part of western Pennsylvania has traditionally been either underground in the coal mines or tied to the steel industry. But as both of these industries suffered through the 1980s and 1990s, the Pittsburgh region had to reinvent itself and the renaissance that has taken place over the last 20 years in diversifying the regional economy is now being cited as a model for other cities to look to during the current recession.

We have grown from 6 to 70 employees in about 10 years based upon inventing, designing and manufacturing real products. We have sold more than 7,500 night vision units. Our success relies upon our dedicated workforce who design, fabricate, and deliver leading-edge quality systems, at a fair price, and on time to our customers. We offer our employees competitive salaries and additional training opportunities, and all are provided with medical benefits and a company-matched 401K program. We recently purchased a second facility nearby that will help expand our optical fabrication capabilities and will create additional jobs.

Our end-user customers, principally our war fighters and law enforcement agents, have in the past often possessed a significant night-time competitive edge and could perform operations at night to limit casualties and offset disadvantages in numbers or in available intelligence. Today, the U.S. is facing an increasingly well-equipped opponent, at home and abroad, and often does not enjoy the night-time advantage that we possessed in the past. Madam Chair and Members of the Committee, I would like to briefly describe three programs of the OmniTech group currently underway that will

enable our people to continue to maintain a competitive advantage in owning the night and also helping to save American tax dollars for night vision technologies.

First, our business unit, OSTI, invented and developed the first generation of inline sights that is now the primary form of night sight procured by the DoJ and DoD. This unit provided such advantages over the previous generation of sights that it ended up completely changing the DoD's approach to night sights. This type of innovation typifies the value that small businesses offer.

OSTI is currently developing the Advanced Dualband Universal Night Sight (ADUNS) which is the next-generation multi-spectral night-vision weapon sight, providing both thermal and intensified night vision in a single compact high-performance package. The ADUNS will provide the agent or war fighter with a surveillance and aiming tool that will be unmatched by, and provide a significant advantage with respect to those they observe.

Second, the US government has purchased millions of dollars of image-intensified goggles for surveillance and interdiction activities at night. When there is sufficient starlight, these goggles provide excellent performance. When targets are obscured by camouflage, fog, or when it is very dark, thermal imaging is required. A new system attempts to serve this need by "fusing" intensified and thermal images but it's very expensive. Our engineers have developed an alternative "Clip-On Thermal Imager" (COTI) that clips onto and adds thermal imaging capability to currently deployed and logistically supported goggles. It is estimated that this thermal imaging capability can be added to existing goggles at about a third of the cost to taxpayers that would be required to field completely new goggles.

Third, the off-shore migration of night-vision lens production occurred years ago when lens fabrication was very labor-intensive. The DoD purchases most of its intensified and multi-spectral night-vision optics off shore, exposing critical technology to non-U.S.

citizens, simply because a competitive U.S. source does not exist. To meet this vital need to our national security interest, OSTI is currently part of a Defense Production Act program to develop a cost-effective domestic source using high-speed robotic optical fabrication and assembly equipment to produce advanced night-vision lenses for U.S. military systems.

I cite these three programs as examples, from our business perspective, of what innovative small businesses can do in finding solutions to needs and reducing costs. We believe that when there is a level playing field in the Federal Government acquisition process, we have and can compete with anyone.

Paul and I built our Company through Pittsburgh's most recent renaissance. One of the benefits of living in an area that was so dependent on heavy manufacturing in the past is the enormous engineering skill sets that are in the region as well as excellent local college engineering and science programs. This strong engineering base has made a significant contribution to the re-engineering of Pittsburgh in growing new companies as part of the new economy. However, our technology also requires specialized engineering expertise. We have had to develop the engineering talent that keeps us competitive in this market and in this economy. While the recruitment and training of engineering talent is an on ongoing issue, it is one that we can resolve. However, we find that there are other issues which affect the small business high technology company that must be addressed by the Federal Government. I consider that these issues are not specific to OmniTech but affect other similarly situated companies. These companies constitute a key sector in the American economy. This brings me to the issues confronting small businesses, and especially high technology small businesses serving the Federal market.

## **Small Business Concerns**

Small businesses can often be innovative, flexible and efficient and as such are well suited to respond to market changes with new product innovation. Notwithstanding this competitive advantage, our experience demonstrates that, in general, the Federal Government acquisition system views the innovative small business as a risk to perform in supplying state of the art high technology deliverables in production quantities. The Federal Government acquisition system allows small business to bid on production opportunities, but the “best value” selection criteria encourages a procuring agency to select a large business over a small business even when the small business offers significant price advantages and/or superior performance of products. This bias fails to recognize that the high technology small business must and does acquire and maintain personnel, equipment, quality, and other resources needed to be competitive with large companies. The large company preference is also enhanced by the fact that many large companies have the luxury of having on site representatives who work closely with user groups prior to the initiation of any formal acquisition and thus can input conceptual approaches to various problems well in advance of any formal acquisition. Acquisition officials also have developed a “comfort zone” that creates the impression that a large company, with extensive resources, is more likely to perform satisfactorily than the small business. Although we understand the rationale we don’t believe it is borne out in fact.

While the Federal Government acquisition system does maintain “small business set aside procurements” these opportunities, in our experience are not representative of the high technology challenges within which we seek to participate, and the set aside may actually serve to discourage firms like ours from pursuing the “larger” programs which has the long term effect of limiting competition by discouraging small business from entering markets traditionally served by only a few, large government contractors.

Obviously a condition precedent to our ability to maintain the resources necessary to continue to be a key supplier of high technology equipment is the continuing availability

of federal funding to support the appropriate programs. The dominance of the United States as the pre-eminent military power in the world is, at this point unquestioned but not unchallenged. The United States military has the best night vision equipment in the field. We are working hard to develop the next generation of night vision products to keep that advantage. We know that other nations, not necessarily with interests in line with those of the United States, are working unceasingly to develop or obtain technology needed to “take the night” away from the United States. This threat can only be obviated through sufficient funding to the government entities charged with ensuring that our present night vision position is protected and expanded, and by further ensuring that those government entities are inclusive of small business when seeking products and solutions to the night vision challenge of the 21<sup>st</sup> century. In our opinion a reliance on traditional sources will preclude the government from receiving the potential benefits that are presented by the application of problem resolutions afforded by high technology small businesses.

Taxes are another major impediment to the success of small businesses. High marginal rate and other taxes that apply to S corporations have the most effect on businesses that are growing. Successful businesses are usually growing businesses. These are the businesses that are succeeding in the marketplace, and are typically adding employees as a result of that success. These businesses are also increasing inventory and investing in capital equipment and real property to accommodate and enable their growth. Therefore, these businesses must invest profits into building up inventory to keep pace with the market, and into capital equipment and facilities that are depreciated over many years of service. Taxes, however, are levied on net income without regard to the required need to continue to grow the business, create jobs, and insure the quality and reliability of our products. It is not unusual for the owners of an S-corporation to pay taxes well in excess of the shareholders take home earnings. Therefore, in order to insure timely tax payment, the S-Corporation often loses the benefit of the re-investment of profits back into the business. Consequently, high marginal tax rates have a direct and serious effect on growing businesses. They reduce competitiveness, and penalize investment back into the company. This issue will be

further exacerbated if certain provisions of the proposed changes to the tax code are enacted in the future.

OmniTech is the typical small business that needs continual reinvestment to sustain its growth and product creativity. It is a 70-person manufacturing and product design/development firm that is experiencing growth due to its innovative and successful product line and its dedicated manufacturing personnel. It is investing in facilities, equipment and inventory to help hold its current market share, allow for new product development, and to continue its growth. OmniTech's growth creates a federal income tax burden that is roughly 10 times what the shareholders withdraw from it every year. OmniTech could employ roughly 20 more manufacturing personnel (about 30% more employees) with the money that is paid to the federal government in federal income taxes. While we understand the necessity to pay federal income tax we consider that the tax calculation should be more reflective of the amount actually received by the shareholders. This approach would better facilitate the continued re-investment into small business and support the re-growth of the economy. Keeping the tax burden low on small businesses by lowering marginal tax rates and avoiding implicit tax increases such as occur when the ceiling on social security taxable income is increased is becoming more critical to small business survival. The fewer taxes small businesses pay, the more people we can employ, the better benefit packages we can introduce for our employees, the more competitive we are in the world market, and the more effective we can be at keeping American workers competitive. Conversely, high marginal tax rates discourage the small business entrepreneur from developing technology and often encourage the entrepreneur to sell technology to large companies thereby limiting competition. This technology is often sold to foreign sources. This again limits competition but it also derails domestic technology development and increases the potential to have such technology compete against American interests.

We believe the small, high technology business needs to be recognized for the innovations it brings to the society, the jobs it creates and expands, and its critical role in helping to re-start the American economy. The Federal Government can strengthen

these critical businesses by ensuring that the Federal Acquisition Regulations protect and encourage small businesses, and by reducing the tax burden on those small companies that invest in their employees and their technology.

Madam Chair and Members of the Committee, on behalf of the entire OmniTech group, thank you for this special recognition and for the invitation to testify today. I would be glad to answer any questions about my testimony.